



AD-A272 161



# Department of Defense INSTRUCTION

August 14, 1991  
NUMBER 5010.36

ASD(FM&P)

SUBJECT: Productivity Enhancing Capital Investment (PECI)

- References:
- (a) DoD Instruction 5010.36, Subject as above, December 31, 1980 hereby canceled
  - (b) DoD Directive 5010.31, "DoD Productivity Program," April 27, 1979
  - (c) DoD 5025.1-M, "Department of Defense Directives Procedures," December 1990 authorized by DoD Directive 5025.1, December 23, 1988
  - (d) DoD Instruction 7045.7, "Implementation of the Planning, Programing, and Budgeting System (PPBS)," May 23, 1984
  - (e) through (i), see enclosure 1

## A. REISSUANCE AND PURPOSE

This Instruction:

1. Reissues reference (a) to update policy, responsibilities, procedures, and guidance for the Peci process under DoD Directive 5010.31 (reference (b)).
2. Authorizes the publication of DoD 5010.36H "Productivity Enhancing Capital Investment (PECI) Handbook," consistent with DoD 5025.1-M (reference (c)).

## B. APPLICABILITY AND SCOPE

This Instruction:

1. Applies to the Office of the Secretary of Defense (OSD); the Military Departments; Chairman, Joint Chiefs of Staff and the Joint Staff; the Defense Agencies; and the DoD Field Activities (hereafter referred to collectively as the "DoD Components").

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2. Encompasses the acquisition of equipment and facilities to improve the following:

a. Productivity, quality, and processes of DoD Components including major facilities, equipment, or process modernization.

b. Performance of individual jobs, tasks, procedures, operations, and processes.

3. Encompasses PIF investments at appropriated and industrially funded activities, if they are not participating in the Defense Business Operations Fund. For industrially funded activities, projects may be submitted for PIF on an exception basis; primarily, this includes facilities, multi-function projects, prototypes, demonstrations, and cross-service initiatives. Investments at Government-owned, contractor-operated (GOCO) facilities are limited to those for which the Department of Defense has responsibility to provide equipment or facilities and from which productivity benefits can be recovered within existing contractual provisions.

#### C. DEFINITIONS

Terms used in this Instruction are defined in enclosure 2.

#### D. POLICY

It is DoD Policy that:

1. The PECI program shall be an integral part of DoD Component investment planning and of the Defense Planning, Programming, and Budgeting System (PPBS) DoD Instruction 7045.7, (reference (d)). PECI planning shall include the productivity investment fund (PIF), the productivity enhancing incentive fund (PEIF), and component-sponsored investments (CSIs). The PECI program is a major DoD strategy to achieve productivity goals under E. O. 12637 (reference (e)).

2. PECI projects shall be selected to improve quality and productivity, or to reduce unit cost of outputs in defense opera-

Aug 14, 91  
5010.36

tions. PEGI projects shall be evaluated and approved for funding based on recognized principles of economic analysis. Each PEGI project shall be subject to all restrictions established by public law, DoD policy, and other regulatory constraints.

3. DoD personnel at all levels shall be encouraged to seek out and identify opportunities for quality and productivity improvement. Those efforts shall be supported by using the PEGI as a means of financing the improvements. The PEGI Program shall provide incentives for participation, supported by the financial management system and policies.

4. Individuals or groups who successfully identify PEGI opportunities that result in significant savings or improvements in quality or productivity or who aggressively promote PEGI initiatives within their organizations should be recognized through the DoD Incentive Awards Program, DoD Instruction 5120.16 (reference (f)), the Secretary of Defense Productivity Excellence Awards Program, performance appraisal, or other appropriate means. All the savings derived through PEGI will remain with the originating DoD Component. As an incentive a portion of these savings, when possible, should remain at the submitting activity.

5. Funds provided through FY 1993 from the centrally managed OSD PIF may not be reprogrammed for non-PIF purposes without prior approval of the Assistant Secretary of Defense Force Management and Personnel for (ASD(FM&P)). The Heads of DoD Components shall monitor obligation rates to ensure PIF projects are executed quickly. If project funding cannot be obligated within the specified fiscal year(s) for the type of funding, the Head of the DoD Component must reprogram PIF funds to alternate approved PIF projects. The PIF projects shall be monitored to ensure timely implementation and to validate savings through the amortization period. The PEGIs are subject to audit as established by DoD Instruction 7600.2 (reference (g)) policy.

#### E. RESPONSIBILITIES

1. The Assistant Secretary of Defense (Force Management and Personnel) (ASD(FM&P)) shall:

a. Develop policies and guidance for the overall DoD PEGI program;

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b. Maintain oversight of the PEGI program to ensure implementation of this Instruction. Through FY 1993 that oversight includes total process control and coordination of PIF actions to identify, select and approve, reprogram, and disapprove projects. Starting FY 1994 the ASD(FM&P) shall retain central oversight of the PEGI program which is decentralized to the Components.

c. Evaluate program results and training requirements and provide additional guidance, as necessary.

d. Develop, maintain, and publish a DoD Handbook 5010.36-H consistent with DoD Manual 5025.1-M (reference (c)).

e. Coordinate PEGI efforts with the Heads of the DoD Components on matters that affect their particular areas of responsibility.

f. Use the Defense Productivity Program Office (DPPO) to:

(1) Provide technical guidance and support for PEGI efforts.

(2) Monitor and evaluate DoD Component PEGI efforts.

(3) Ensure compliance with DoD Directive 7750.5 (reference (h)).

2. The Inspector General of the Department of Defense (IG, DoD) shall provide policy and guidance for the audit of the PEGI and incorporate the requirement for audit into audit planning and program documents.

3. The Heads of the DoD Components shall:

a. Develop and sustain a formal PEGI program that:

(1) Emphasizes and encourages the improvement of day-to-day operations through PEGI funding.

(2) Provides motivation and opportunities for personnel, at all levels, to participate in the identification, documentation, and implementation of PEGI proposals.

(3) Includes PIF, PEIF, and CSI efforts, as appropriate.

(4) Reviews and approves submitted projects, broadens project applicability when reasonable, applies off-the-shelf technology, and integrates capital investment planning into the PPBS.

b. Designate an official to be the central point of contact (POC) who shall oversee and monitor the PEGI program.

c. Establish procedures ensuring that the policies contained in section D., above, are adhered to.

#### F. PROCEDURES

The following procedures shall be followed by the DoD Components in the identification, documentation, selection, and financing of PEGI projects:

1. Document each PEGI project to ensure that it is:

a. A desirable action in accordance with the DoD Component's long-range planning and programming objectives, quality objectives, and customer and/or user satisfaction.

b. Needed to perform and improve valid operations, functions, or services (as established by assigned missions and taskings) that cannot be performed as effectively or economically by other means, such as the use of existing facilities, methods, processes, or procedures.

c. Justified on the basis of a valid economic analysis done in accordance with DoD Instruction 7041.3 (reference (i)).

d. Validated as to reasonableness, completeness, and correct appropriation.

e. Classified properly as having savings or cost avoidance benefits.

2. Include resources for PECI in programming documents and budget submissions. The level of funding shall be established under quality and productivity plans and goals established by the Component.

3. Use guidelines for project documentation, pre-investment analysis, financing, and postinvestment accountability of PECI projects, when DoD Handbook 5010.36-H is published.

4. Classify PECI projects for financing and aggregated reporting as follows:

a. PIF projects. PIF projects are competitively selected from candidate proposals and financed through traditional budget appropriation processes from funds set aside for this purpose. PIF projects must cost over \$100,000 and must amortize within 4 years from the date that they become operational. Both equipment and facilities investments that conform to public law, or DoD policies governing their qualification, may be included. Projects may include a function at several activities or locations and be Service-wide or Agency-wide. In FY 1994 the threshold will change to \$150,000.

b. PEIF projects. PEIF projects are financed from the DoD Component accounts established in annual appropriations and are expected to amortize within 2 years of the date they become operational. Funding for PEIF projects shall be included in the DoD Component annual appropriations as a single amount to cover projects, as they are proposed throughout the budget year. PEIF projects cannot exceed \$100,000 or cost limitations established by the OSD (whichever is greater) and are limited to facility modification and acquisition of "off-the shelf" equipment requiring little or no modification before use. In FY 1994 the limit changes to \$150,000. Justification for those projects shall be

Aug 14, 91  
5010.36

based on the potential to improve quality and productivity that is realized through improvements in operating methods, quality, processes, or procedures.

c. CSI. CSI projects are investments financed from the DoD Component accounts that may have longer amortization periods than the PEIF and may have different DoD Component cost or benefit criteria than those specified for PIF projects. The CSI projects shall be identified and included in the DoD Component's annual budget.

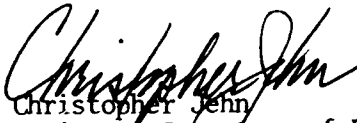
#### G. INFORMATION REQUIREMENTS

1. DoD Components shall submit to the ASD(FM&P), by December 15th of each year, an annual status report on all PEFI programs as outlined in enclosure 3. The DoD Components shall maintain the data at a central point to support reporting requirements.

2. The Summary Report, "PEFI Program Status," is assigned Report Control Symbol FM&P(A)1561, in accordance with DoD Directive 7750.5 (reference (h)).

#### H. EFFECTIVE DATE AND IMPLEMENTATION

This Instruction is effective immediately. Forward two copies of implementing documents to the Assistant Secretary of Defense (Force Management and Personnel) within 120 days.

  
Christopher Jehn  
Assistant Secretary of Defense  
(Force Management and Personnel)

Enclosures - 3

1. References
2. Definitions
3. Reporting Procedures

REFERENCES, continued

- (e) Executive Order 12637, "Productivity Improvement Program for the Federal Government," April 27, 1988
- (f) DoD Instruction 5120.16, "Department of Defense Incentive Awards Program: Policies and Standards (FM&P)," July 15, 1974
- (g) DoD Instruction 7600.2, "DoD Internal Audit Standards, Policies, and Procedures (IG)," February 2, 1991
- (h) DoD Directive 7750.5, "Management and Control of Information Requirements," August 7, 1986
- (i) DoD Instruction 7041.3, "Economic Analysis and Program Evaluation for Resource Management," October 18, 1972



### DEFINITIONS

1. Capital Investment. The acquisition, installation, transportation, and other costs needed to place equipment or facilities in operation meeting DoD capitalization requirements.
2. Economic Life. The time period over which the benefits to be gained from a project may reasonably be expected to accrue to the Department of Defense. (See DoD Instruction 7041.3, reference (i) and enclosure 3).
3. Internal Rate of Return (IRR). The discount rate that equates the present value of the future cash inflows, e.g. savings and cost avoidances, with the present value costs of an investment.
4. Life-Cycle Savings. The estimated cumulative budgetary savings expected over the life of the project.
5. Net Present Value of Investment. The difference between the present value benefit and the present value cost at a given discount rate.
6. Off-the-Shelf. Equipment that is readily available through Government or commercial sources or that can be fabricated through combination or modification of existing equipment.
7. Pay-Back Period. The number of years required for the cumulative savings to have the same value as the investment cost.
8. PECI Benefits. Benefits resulting from PECIs are classified as savings or as cost avoidance:
  - a. Savings. Benefits that can be precisely measured, quantified, and placed under management control at time of realization. Savings can be reflected as specific reductions in the approved program or budget, after they have been achieved. Examples include costs for manpower authorizations and or funded work-year reductions, reduced or eliminated operating costs

(utilities, travel, and repair), and reduced or eliminated parts and contracts.

b. Cost-Avoidance. Benefits from actions that obviate the requirements for an increase in future levels of manpower or costs that would be necessary, if present management practices were continued. The effect of cost-avoidance savings is the achievement of a higher level of readiness or increased value (quantity, quality or timeliness) of output at level staffing cost or the absorption of a growing work load at the same level of staffing or cost.

9. Post-Investment Assessment (PIA). A PIA is conducted by DoD Components to establish accountability and provide information to improve future investment strategies.

10. Productivity. The efficiency with which resources are used to provide a government service or product at specified levels of quality and timeliness.

11. Productivity Enhancement (or Productivity Improvement). A decrease in the unit cost of products and services delivered with equal or better levels of quality and timeliness.

12. Productivity Enhancing Capital Investment (PECI). Equipment or facility funding that shall improve Government service, products, quality, or timeliness. PEGI projects are funded using PIF, PEIF, and CSI programs. These programs are defined as follows:

a. Productivity Investment Fund (PIF). PIF projects cost over \$100,000 and must amortize within 4 years from the date they become operational. In FY 1994 the threshold changes to \$150,000. See paragraph 4a for details.

b. Productivity Enhancing Incentive Fund (PEIF). PEIF projects cost under \$100,000 and are expected to amortize within 2 years of the date they become operational. In FY 1994 the limit changes to \$150,000. See paragraph 4b for details.

c. Component-Sponsored Investment (CSI). CSI projects are fast pay-back or high interest investments that may have differ-

Aug 14, 91  
5010.36 (Encl 2)

ent DoD Component selection criteria than those specified for PIF  
or PEAF projects. See paragraph 4c for details.

13. Quality. The extent to which a product or service meets  
customer requirements and customer expectations.

## REPORTING PROCEDURES

### A. GENERAL

The PEGI reporting requirements provide the OSD with summary information required to provide program accountability, and satisfy the congressional concerns on program management. Information may be submitted in memorandum, letter, or other acceptable form.

### B. INFORMATION REQUIREMENTS

1. PIF. Each DoD Component that has a funded PIF project must annually report summary PIF information. The information required for each project follows:

a. Project Identification. Provide the 11-digit code for each project that has been approved for desired funding, such as follows:

(1) A92BAxxxxxx

- (a) "A" is for an Army project.
- (b) "92" is for a FY92 project.
- (c) "BA" is an Approved PIF project.
- (d) "xxxxxx" is a DoD Component identifier.

(2) DoD Component PEGI points of contact should establish identifiers to ensure each project is unique.

b. Total Funds Provided. For each project provide the cumulative amount of PEGI funds invested in the project.

c. Total Amount Obligated. For each project provide the cumulative amount of funds obligated against the project.

d. Actual Savings For each project provide the cumulative actual savings generated.

e. Projected Life-Cycle Savings For each PIF project provide the estimated amount of savings the project is projected to earn over the project's economic life.

f. Projected Life-Cycle Cost Avoidance For each PIF project provide the estimated amount of cost avoidance the project is projected to achieve.

2. PEIF. Each DoD Component that has funded PEIF projects must annually report summary information that includes:

- a. Total Number of Projects.
- b. Total Funds Provided.
- c. Total Amount Obligated.
- d. Total Projected Life-Cycle Savings.
- e. Total Projected Life-Cycle Cost Avoidance.

3. CSI. Each DoD Component that has funded CSI projects must annually report summary information that includes:

- a. Total Number of Projects.
- b. Total Funds Provided.
- c. Total Amount Obligated.
- d. Total Projected Life-Cycle Savings.
- e. Total Projected Life-Cycle Cost Avoidance.

4. PIA. Post-Investment assessments, articles, pictures, and brief description of projects and their results are encouraged and may be attached to the annual report or submitted throughout the year.